Maple Leaf Mills Limited

ANNUAL REPORT TO SHAREHOLDERS, MARCH 31, 1967

MAPLE LEAF MILLS LIMITED

financial highlight summary

	Eight months ended March 31, 1967	Year ended July 31, 1966
Revenue from Sales, Services and Commodity Trading Margins	$90,106,893	$134,655,972
Earnings before Income Taxes	$ 4,698,674	$ 6,302,568
per Dollar of Revenue—(Cents)	5.2	4.7
Income Taxes	$ 2,447,000	$ 2,983,000
per Common Share	$1.53	$1.88
Net Earnings	$ 2,251,674	$ 3,319,568
per Dollar of Revenue—(Cents)	2.5	2.5
per Common Share	$1.36	$2.03
Dividends	$ 1,066,980	$ 1,239,250
per Preferred Share	$4.125	$5.50
per Common Share—(Cents)	62.5	72.5
Working Capital	$ 21,136,154	$ 20,988,339
Additions to Fixed Assets (Net)	$ 1,827,495	$ 1,572,539
Depreciation	$ 1,528,000	$ 2,416,296
Common Shares Outstanding	1,594,366	1,584,597
Common Shares Book Value	$ 23.24	$ 22.56
Common Shareholders	2,782	2,676

MAPLE LEAF MILLS LIMITED

DIRECTORS:	H. N. Bawden	J. D. Leitch
	F. T. Carnegie	James L. Lewtas, Q.C.
	A. D. Clark	G. M. MacLachlan
	H. R. Cook	B. A. Norris
	Dr. James Gillies	C. E. Soward
	P. G. Kingsburgh, C.A.	J. H. Taylor

OFFICERS:	*Chairman of the Board*	J. D. Leitch
	President & Chief Executive Officer	G. M. MacLachlan
	Vice-President & Secretary	H. V. Hawkins
	Vice-President Finance & Treasurer	J. A. Telfer
	Assistant Secretary-Treasurer	John Otto
	Controller	J. J. Wigle

VICE-PRESIDENTS:

A. W. Archibald
A. D. Clark
C. P. Coutts
P. W. Strickland

BANKERS:

Canadian Imperial Bank of Commerce
The Toronto-Dominion Bank
Bank of Montreal

TRANSFER AGENTS & REGISTRARS:

Crown Trust Company, *Toronto and Montreal*

AUDITORS:

Clarkson, Gordon & Co., *Toronto*

MAPLE LEAF MILLS LIMITED

to the shareholders

This fiscal year ending March 31st, 1967, is just eight months in length and subsequent year-ends will be on this date. The purpose of the change is to be able to accomplish a more efficient preparation of the annual statements. Because the results reported are for eight months only, the statement has been shortened and does not contain the usual comparative charts or photographs of the Company in action. It is anticipated that the next Annual Report will return to its usual format.

The financial results for the last eight months have been satisfactory. While exact comparisons are difficult, owing to the somewhat seasonal variations in the nature of the business, a comparison of audited results for this fiscal year ending March 31st, 1967, with unaudited results for the equivalent period ending in 1966 indicates an increase in net earnings of about 10%. The actual earnings for the period in review were $2,251,674. A statement of earnings for the last five years follows:

Five-Year Statement of Earnings

	1967*	1966	1965	1964	1963
Earnings before undernoted items	$6,506,336	$9,211,699	$8,175,575	$9,258,386	$6,912,896
Dividends from unconsolidated subsidiaries	89,385	217,984	236,818	92,249	290,960
Income on marketable securities	42,150	53,933	24,927	7,626	—
Profit on sale of fixed assets	38,316	95,478	24,274	114,860	123,325
Profit on sale of marketable securities	37,416	43,081	—	—	—
Profit on sale of preference shares of an unconsolidated subsidiary	—	—	—	95,621	—
Profit on retirement of sinking fund debentures	31,460	—	—	—	—
	6,745,063	9,622,175	8,461,594	9,568,742	7,327,181
Deduct:					
Depreciation	1,528,000	2,416,296	2,610,202	2,575,271	2,600,994
Interest on funded debt	505,352	885,647	1,100,080	1,171,268	1,247,745
Income taxes	2,447,000	2,983,000	2,234,000	2,813,000	1,645,000
Dividends on preference shares of subsidiary companies	13,037	17,664	9,916	11,238	12,560
	4,493,389	6,302,607	5,954,198	6,570,777	5,506,299
Net earnings	2,251,674	3,319,568	2,507,396	2,997,965	1,820,882
Deduct dividends on preference shares	76,721	102,294	102,295	102,295	102,295
Net earnings available for common shares	$2,174,953	$3,217,274	$2,405,101	$2,895,670	$1,718,587

*Eight Months

During the fiscal year the regular dividend of 70¢ a share was paid quarterly and an extra of 10¢ paid in October 1966. The net earnings per Common share for the eight months, after preferred dividends, amounted to $1.36. Working capital at the year-end was $21,136,154, an increase of $147,815.

The Company, for operational purposes, is divided into a number of divisions and each will be dealt with separately in this report. The operating divisions are to a degree complementary to one another and each of them makes a substantial contribution to earnings.

FLOUR AND GROCERY PRODUCTS: In this division there was no change in the number of flour mills, packaging plants or warehouses, but modernization of existing facilities was accelerated in an effort to hold down unit costs in face of rising wages and raw material costs. Work is proceeding on pneumatic systems to replace obsolescent mechanical handling devices at the West Toronto plant and a major cost-saving renovation is under way which will bring up to date the large St. Boniface mill.

Domestic flour volume showed a slight decline in the face of some prices which were unacceptably low. Over-all profit was maintained satisfactorily. In the export market volume increased with Russian demand, although other commercial sales declined as new flour mills commenced operations in the West Indies, Africa and the Near East in countries which the Company has served traditionally. Government aid programs to India and Ceylon helped fill the production gap and the Russian contract continues for at least two more years at a high level.

Grocery products were emphasized during the year with an increase in sales volume. New Monarch Parfait Desserts are on sale across Canada, along with new flavours of Cake Mixes, all enjoying consumer acceptance. Progress is being made in Monarch Sponge Puddings, Icing Mixes and Pie Crust. These successes all involved a high cost of promotion and advertising which temporarily curtailed profits.

Emphasis is now being exerted in the Pet Food field where the "Master" brand has long enjoyed a prestige label. An expanded line of dog and cat products with traditional nutritional benefits has been tested and will be offered this year. The Research Division is continually developing new products and variations of existing lines, all of which are tested and the most promising taken to the marketing stage on a planned program basis.

AGRICULTURAL: This division has enjoyed the greatest growth rate in the Company. During the fiscal year expansion continued with the beginning of operation of the Red Deer Feed business in Alberta and the Heaslip Feed business at Nelles Corners in Ontario. In addition a new branch opened at Springford, Ontario, and new retail stores at Edmonton, Alberta, Port Perry and Komoka, Ontario. At Komoka a modern bulk feed plant is under construction. Master Feeds showed an encouraging increase in sales across Canada.

The poultry processing plants headed by Sky Line Farms had a difficult competitive year with profits reduced substantially through problems developing in the marketing of broilers. Sky Line Turkeys at Chatham was acquired to round out the operation.

The development of marketing boards under Government legislation has introduced a new element of uncertainty for the future in the Agricultural Division.

The Retail Branch operations have made a worthwhile increase in earnings and this part of the Division is being continually expanded. The Special Products Department sales and earnings were up substantially.

Research facilities are being modernized and expanded. Existing plants are being streamlined to try and overcome increasing costs. Feeds are now being formulated for highest nutrition and lowest cost on the Company's own computer. Earnings in the Division are being well maintained.

This has been a difficult period for seed operations. A world-wide decline in certain seed values, together with problems in integrating some of the new seed business, resulted in a disappointing year. These challenges are now being accepted with a view to developing a new large and potentially profitable part of the Company.

GRAIN MERCHANDISING AND ELEVATORS: This division encountered an unusual year in that some operations increased their profit and others suffered a reduction. In the elevators at Toronto gross revenue remained the same but profits decreased because of inability to absorb the higher costs of operation related to wages and property taxes. At Sarnia these costs were successfully absorbed through a large handle of grain aided by a year in which maintenance costs were low.

Grain merchandising activities in Toronto, Quebec, Montreal and Three Rivers suffered from severe competition, but were nevertheless average, if not as good as last year. St. Clair Grain & Feeds had a disappointing year due to the narrow profit margins prevailing in its market area. This part of the division continues to expand with a new branch at Newbury, bulk fertilizer facilities at Merlin, and new offices and warehouse at Staples. St. Clair is a vital part of the Company for gathering grains for use in the other manufacturing divisions.

International Trading activities continued at a high level but with somewhat reduced profits. This department is a Canadian leader in the business of trading in and supplying all types of vegetable and fish oil and most varieties of edible nuts from all over the world.

VEGETABLE OILS: This was again a year of very high soybean prices despite a record harvest. As a result there was further substituting of lower priced oilseeds in available markets which reduced the margins available in the marketing of the oil and meal production of the division. It is possible that this situation may improve, due to the large supplies of beans now in sight and a prospective huge American crop to be harvested this summer.

Linseed oil and meal production and sales were satisfactory following a crop of good quality flaxseed selling at more reasonable prices.

Studies are continuing to determine the long term future of this division in terms of new plants and prospective markets.

RESEARCH AND DEVELOPMENT: In order to obtain the advantage of the research incentives offered by the Federal Government, a project has been started under the Program for the Advancement of Industrial Technology scheme of the Department of Industry. This has enabled installation of pilot plant equipment suitable for development of a number of products.

A continual search for new uses for flour is being carried on. Much progress has been made in several areas, some of which involve non-food uses for flour. Baking projects and research are still a major concern and current programs in the field of baking processes show considerable promise. A new dessert mix "Parfait Dessert" was successfully moved into the market and two new flavours were added. This is the Company's second dessert mix which contains no flour. Work in the field of pet foods is being accelerated to take advantage of the expanding market.

The processing of vegetable oils for use in paints in the face of inroads by petrochemical products is another important area of research which the Company is continuing to explore.

PERSONNEL AND INDUSTRIAL RELATIONS: Union contracts continued to be amicably settled at various locations. The costs involved are again a matter of concern because although in line with major competitors, they exceed any conceivable guideline which might be considered reasonable. The Company is subject to the provisions of the Canada Labour Standards Code in most locations. Some of these regulations affecting hours of work make it difficult to schedule operations efficiently. In several areas a shortage of available manpower hampered operations during the summer and autumn months. Programs of employee education continued with record attendances at major and minor university and other courses.

SERVICE DEPARTMENTS: The Financial Division has been reorganized along functional lines resulting in the separation of accounting from data processing and the expansion of the internal audit section. A new Systems and Information Department has been created and a major study is under way to modernize the flow of statistics to decision making centres. Engineering, Traffic and Purchasing Departments continued to expand their essential services to the operating divisions.

OUTLOOK: Prospects continue to be favourable for most of the business areas in which the Company engages. The continuing problem of a cost spiral which in Canada seems difficult to halt, creates a challenge for greater efficiency throughout the organization. All products manufactured sell under extremely competitive conditions, whereas much of the raw material used is purchased at fixed prices from a Government board or in a price controlled market. This situation tends to narrow margins from time to time, making reasonable profit levels hard to achieve. To increase its returns substantially the Company will have to expand and diversify further and this is a constant aim of senior management.

APPRECIATION: Under arrangement for the retirement of Directors Mr. F. T. Carnegie and Mr. H. R. Cook will not stand for re-election to the Board of Directors at this Annual Meeting. Their services, both as employees and directors, have been of great assistance over many years.

This year 17 employees with service of from 14 to 50 years retired under the Pension Plan provisions. Among these was Mr. G. A. Scrimger, Vice-President and Treasurer, who served for 45 years, starting in 1922 as an accounting clerk. The loyalty and efficiency of all of these employees and those currently employed have brought the Company to its present standing and are much appreciated.

On Behalf of the Board of Directors

G. M. MacLachlan,
President and Chief Executive Officer

Toronto, Canada
May 30, 1967

MAPLE LEAF MILLS LIMITED

(Incorporated under the laws of Ontario)

assets

		MARCH 31, 1967	JULY 31, 1966
CURRENT:			
Cash		$ 327,910	$ 341,794
Accounts and bills receivable		20,651,195	21,966,140
Accounts receivable from unconsolidated subsidiaries		526,257	806,048
Contract sales, due on future delivery of grain and other products		11,354,780	7,024,323
Inventories—			
Wheat held as agent for the Canadian Wheat Board, at cost	$11,384,644		
Finished products and materials held for production at the lower of cost and market	15,726,405		
Other grains, at market	1,221,946	28,332,995	28,226,916
Marketable securities, at cost (market value $1,503,000; 1966—$1,672,000)		1,393,218	1,569,710
Prepaid expenses		473,153	616,439
Total current assets		63,059,508	60,551,370
INVESTMENTS:			
Mortgages, properties and other investments, at cost, less amounts written off		3,927,207	3,881,272
Unconsolidated subsidiaries (note 1)		2,364,231	2,113,585
		6,291,438	5,994,857
FIXED:			
Real estate, plant and equipment, at cost		55,210,241	53,472,742
Less accumulated depreciation		29,116,678	27,716,990
		26,093,563	25,755,752
OTHER:			
Refundable tax		114,213	50,505
Repair parts and supplies		183,344	176,831
Patents, trademarks and goodwill, less amortization		275,881	279,281
Unamortized debenture discount and expenses		374,908	398,493
		948,346	905,110
		$96,392,855	$93,207,089

consolidated balance sheet, March 31, 1967

(with comparative figures as at July 31, 1966)

liabilities

	MARCH 31, 1967	JULY 31, 1966
CURRENT:		
Bankers' advances (note 2)	$20,778,387	$24,443,015
Notes payable	8,000,000	4,480,000
Grain and other commodity commitments	4,031,163	2,231,088
Accounts payable and accrued charges	7,035,179	6,221,507
Income and other taxes payable	1,442,508	1,348,421
Funded debt payable within one year	323,450	839,000
Dividends payable	312,667	
Total current liabilities	41,923,354	39,563,031
FUNDED DEBT (note 3)	12,294,400	13,086,800
ACCUMULATED TAX REDUCTIONS APPLICABLE TO FUTURE YEARS	3,086,700	2,743,700
MINORITY SHAREHOLDERS' INTEREST IN PREFERENCE SHARES OF SUBSIDIARY COMPANIES (note 4)	302,720	329,160
SHAREHOLDERS' EQUITY:		
Capital stock (note 5)—		
Authorized:		
75,000 preference shares Class A, par value $100 each		
18,623 5½% preference shares Class B (cumulative, redeemable and voting), par value $100 each		
4,000,000 common shares without par value		
Issued:		
18,622.15 preference shares Class B	1,862,215	1,862,215
1,594,365.85 common shares	5,154,358	5,037,769
	7,016,573	6,899,984
Less 5,390 common shares held by a subsidiary	4,270	4,270
	7,012,303	6,895,714
Contributed surplus	576,922	576,922
Earned surplus	31,196,456	30,011,762
	38,785,681	37,484,398
	$96,392,855	$93,207,089

On behalf of the Board:

J. D. LEITCH, *Director*
G. M. MACLACHLAN, *Director*

for the eight months ended March 31, 1967

(with comparative figures for the year ended July 31, 1966)

statement of consolidated earnings

	Eight months ended March 31, 1967	Year ended July 31, 1966
Revenue from sales, services and commodity trading margins	$ 90,106,893	$134,655,972
Earnings from operations before the items set out below	$ 6,780,029	$ 9,796,610
Dividends from unconsolidated subsidiaries	89,385	217,984
Income from marketable securities	42,150	53,933
Profit on sale of fixed assets	38,316	95,478
Profit on sale of marketable securities	37,416	43,081
Profit on retirement of sinking fund debentures	31,460	
	7,018,756	10,207,086
Deduct:		
Interest on funded debt	505,352	885,647
Depreciation	1,528,000	2,416,296
Appropriation for employees' pensions	226,708	515,900
Amortization of debenture discount and expenses	23,585	34,011
Amortization of goodwill	23,400	35,000
Dividends on preference shares of subsidiary companies	13,037	17,664
	2,320,082	3,904,518
Earnings before income taxes	4,698,674	6,302,568
Income taxes	2,447,000	2,983,000
Earnings for the period	$ 2,251,674	$ 3,319,568

statement of consolidated earned surplus

Balance at beginning of period	$ 30,011,762	$ 26,427,289
Earnings for the period	2,251,674	3,319,568
Net addition on sale of ocean tanker		2,004,555
	32,263,436	31,751,412
Deduct:		
Dividends—		
Preference shares	76,721	102,294
Common shares	990,259	1,136,956
	1,066,980	1,239,250
Income taxes of prior years in dispute		500,400
	1,066,980	1,739,650
Balance at end of period	$ 31,196,456	$ 30,011,762

for the eight months ended March 31, 1967
(with comparative figures for the year ended July 31, 1966)

statement of consolidated source and application of funds

	Eight months ended March 31, 1967	Year ended July 31, 1966
Funds were obtained from:		
Operations, consisting of—		
Earnings for the period	$ 2,251,674	$ 3,319,568
Charges which did not require an immediate cash outlay:		
Depreciation	1,528,000	2,416,296
Amortization of debenture discount and expenses	23,585	34,011
Amortization of goodwill	23,400	35,000
Income taxes deferred until future years	343,000	432,667
	4,169,659	6,237,542
Deduct profit on sale of fixed assets	38,316	95,478
	4,131,343	6,142,064
Issue of common shares on the exercise of options	116,589	92,672
Net proceeds on the sale of ocean tanker		5,005,874
Recovered from indemnity fund		604,964
Deferment of prior years' income taxes to future years		499,000
	4,247,932	12,344,574
Funds were applied to:		
Purchase of fixed assets (net)	1,827,495	1,572,539
Payment of dividends	1,066,980	1,239,250
Reduction of funded debt	792,400	826,400
Investment in unconsolidated subsidiaries	250,646	314
Payment of refundable tax	63,708	50,505
Mortgages, properties and other investments (net)	45,935	(300,588)
Redemption of preference shares of subsidiary	26,440	26,440
Other items	26,513	18,531
Repayment of secured ship obligations		4,995,407
Payment of disputed income taxes of prior years		500,400
	4,100,117	8,929,198
Increase in working capital	$ 147,815	$ 3,415,376

notes to consolidated financial statements, March 31, 1967

1. Unconsolidated Subsidiaries

The following information is submitted regarding these companies:

(a) These investments are carried at amounts based on revaluation by the management in 1926 plus subsequent additions at cost.

(b) The financial statements of these companies have not been consolidated because a large proportion of the preferred and common stock and all of the funded obligations are held by other interests.

(c) This company's proportion of the profits of unconsolidated subsidiaries for their fiscal years ending within the eight months ended March 31, 1967 was $272,276.

(d) Dividends received from such companies during the period included in the accompanying statement of consolidated earnings amounted to $89,385.

(e) This company's proportion of the balance of profits accumulated by such companies since acquisition (or in certain cases since financial reorganization of the companies) to the end of their fiscal years ended prior to March 31, 1967 amounted to $3,588,200.

2. Bankers' Advances

Bankers' advances are secured by assignment of inventories and a general assignment of accounts receivable.

3. Funded Debt

Maple Leaf Mills Limited—	
5¾% Sinking fund debentures maturing December 1, 1981—sinking fund retirements of $500,000 in each of the years 1967 to 1980, inclusive (balance of current instalment $3,000 included in current liabilities)	$12,000,000
Subsidiary companies—	
6% First and second mortgages due October 9, 1968—$280,000 (U.S.) (instalment of $280,000 (U.S.) due October 9, 1967 included in current liabilities)	288,400
Other mortgages payable (current instalments of $17,000 included in current liabilities)	6,000
	$12,294,400

4. Contingent Liabilities and Commitments

There were contingent liabilities at March 31, 1967 in respect of customers' drafts under discount amounting to $156,000.

Under agreements for the purchase of subsidiaries their preference shares are to be redeemed as follows: $223,380 within two years and $79,340 over the following three years.

5. Capital Stock

During the period 9,769 common shares were issued under the employees' stock option plan for a total consideration of $116,589. There are options outstanding on 18,658 common shares under the employees' stock option plans which become exercisable over a period of years at prices ranging from $5.54 to $16.00 per share.

6. Directors' Fees

Fees paid to directors of the company (excluding remuneration of certain directors as officers) were as follows:

By the company	$16,475
By unconsolidated subsidiaries	4,500

7. Working Capital and Surplus Restrictions

Under the trust indenture securing the debentures and the letters patent authorizing the 5½% preference shares Class B, there are covenants for the maintenance of working capital; under the most restrictive of these covenants, dividends may not be paid that would have the effect of reducing consolidated working capital (as defined) below $8,000,000 or reducing the consolidated equity (as defined) below $25,000,000.

auditors' report

To the Shareholders of

Maple Leaf Mills Limited:

We have examined the consolidated balance sheet of Maple Leaf Mills Limited and its consolidated subsidiaries as at March 31, 1967, and the statements of consolidated earnings, earned surplus and source and application of funds for the eight months then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the aforementioned consolidated financial statements present fairly the financial position of the companies as at March 31, 1967, the results of their operations and the source and application of their funds for the eight months then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
May 30, 1967

Clarkson, Gordon & Co.
Chartered Accountants

Grocery Products

Purity Flour — Cream of the West Flour — Monarch Soft Wheat Flour

Monarch Pouch-Pak Mixes	Monarch Sponge Puddings
Monarch Tea Bisk	Monarch Mixes
Monarch Parfait-Dessert	Brex Cereal
Red River Cereal	Bran Cereal
Master Pet Foods	M.L.M. Grass Seed

Bakery Products

Bakery Flours, including Durum, Rye, Corn and Hovis
Bulk Cake Mixes, Propionates

Sales Agencies

Bovril (Canada) Limited—Bouillon, Concentrate, Cordial, Marmite, Ambrosia Creamed Puddings, Corned Beef, Brisket

E. D. Smith & Sons, Limited—Jams, Jellies, Fillings, Ketchup, Chili Sauce, Lea and Perrin's Worcestershire Sauce and H.P. Sauce

St. Lawrence Starch Company Limited—Bee Hive Golden Corn Syrup, Durham Corn Starch, Ivory Laundry Starch, Corn Oil, Baby Powder

Export Sales

All domestic grocery and bakery products and the products of E D. Smith & Sons, Limited, St. Lawrence Starch Company Limited, McLarens Foods Limited, Culverhouse Canning Company Limited and Canada Vinegars Limited.

Agricultural

Master Feeds for all types of poultry, dairy and beef cattle, hogs, horses, and mink. Poultry meat and select chicks. Farm Equipment. Farm and lawn seeds. Agricultural dry and liquid fertilizers and chemicals.

Grains and International Trade

Merchandising of wheat, oats, barley, corn, soya beans, rye and flax. Edible nuts, coconut, peanut, marine and fish oils.

Vegetable Oil Products

Double Diamond oilcake and meal. Linseed, soybean and castor oils. Soybean Lecithin. Fabolin —a water soluble linseed oil. Concrete Protector. Epoxy Ester Resin solutions.